

# CRS Report for Congress

## The Southwest Pacific: U.S. Interests and China's Growing Influence

July 6, 2007

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Prepared for Members and  
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<b>Report Documentation Page</b>			Form Approved OMB No. 0704-0188	
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1. REPORT DATE <b>06 JUL 2007</b>	2. REPORT TYPE	3. DATES COVERED <b>00-00-2007 to 00-00-2007</b>		
4. TITLE AND SUBTITLE <b>The Southwest Pacific: U.S. Interests and China's Growing Influence</b>			5a. CONTRACT NUMBER	
			5b. GRANT NUMBER	
			5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)			5d. PROJECT NUMBER	
			5e. TASK NUMBER	
			5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Congressional Research Service,The Library of Congress,101 Independence Ave,Washington,DC,20540-7500</b>			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)			10. SPONSOR/MONITOR'S ACRONYM(S)	
			11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>				
13. SUPPLEMENTARY NOTES				
14. ABSTRACT				
15. SUBJECT TERMS				
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>31</b>
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>	19a. NAME OF RESPONSIBLE PERSON	

# The Southwest Pacific: U.S. Interests and China's Growing Influence

## Summary

This report focuses on the 14 sovereign nations of the Southwest Pacific, or Pacific Islands region, and the major external powers (the United States, Australia, New Zealand, France, Japan, and China). It provides an explanation of the region's main geographical, political, and economic characteristics and discusses United States interests in the Pacific and the increased influence of China, which has become a growing force in the region. The report describes policy options as considered at the Pacific Islands Conference of Leaders, held in Washington, DC, in March 2007.

Although small in total population (approximately 8 million) and relatively low in economic development, the Southwest Pacific is strategically important. The United States plays an overarching security role in the region, but it is not the only provider of security, nor the principal source of foreign aid. It has relied upon Australia and New Zealand to help promote development and maintain political stability in the region. Key components of U.S. engagement in the Pacific include its territories (Guam, the Northern Mariana Islands, and American Samoa), the Freely Associated States (Marshall Islands, Micronesia, and Palau), military bases on Guam and Kwajalein atoll (Marshall Islands), and relatively limited aid and economic programs.

Some experts argue that U.S. involvement in the Southwest Pacific has waned since the end of the Cold War, leaving a power vacuum, and that the United States should pay greater attention to the region and its problems. They contend that in some Pacific Island countries, weak political and legal institutions, corruption, civil unrest, and economic scarcity could lead to the creation of failed states or allow for foreign terrorist activity within their borders. According to some observers, unconditional and unregulated foreign aid and business investment from China and Taiwan, which may be attractive to some Pacific Island states, may exacerbate underlying political, social, and economic tensions in the region. While China's influence is largely limited to diplomatic and economic "soft power," many analysts disagree about the PRC's long-term intentions.

In 2007, the Bush Administration pledged to "re-engage" with the region and declared 2007 the "Year of the Pacific." Among the main topics, aims, and initiatives under discussion at the Pacific Islands Conference of Leaders were: expanding U.S. public diplomacy efforts and foreign aid activities; strengthening U.S.-Pacific trade and preferential trade programs for Pacific Island countries; addressing global warming and other environmental concerns in the region; and enhancing educational and cultural exchanges. Several bills to increase U.S. foreign aid to the region have been introduced in the 110<sup>th</sup> Congress. This report will be updated as warranted.

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# The Southwest Pacific: U.S. Interests and China's Growing Influence

## Overview

The United States plays an overarching security role in the Southwest Pacific, but it is not the only provider of security, nor the principal source of foreign aid, and has relied upon Australia and New Zealand to help promote development and maintain political stability in the region. Some observers have characterized the U.S. role in the Pacific as one of “benign neglect.” Others have described it as transient, responding to changes in the global security environment — from the Cold War to the War on Terrorism — rather than the long-term development needs of the region. Key areas of U.S. engagement in the Pacific include its territories (Guam, the Northern Mariana Islands, and American Samoa), the Freely Associated States (Marshall Islands, Micronesia, and Palau), military bases on Guam and Kwajalein atoll (Marshall Islands), and relatively limited aid and economic programs. The United States has security, political, economic, and environmental interests in the Pacific, including providing security for and promoting economic development in the Freely Associated States and U.S. territories, maintaining its military bases and installations, preventing transnational crime and the harboring of terrorist cells, and working with Australia and New Zealand to meet common regional goals.

The Pacific Islands can be divided into four spheres of influence: American, Australian, New Zealander, and French. The American sphere extends through parts of Micronesia, which includes U.S. territories and the Freely Associated States (FAS), as well as Polynesia, including Hawaii and American Samoa. Australia’s regional interests focus on the islands south of the equator, including the relatively large Melanesian nations of Papua New Guinea (PNG) and the Solomon Islands as well as Vanuatu. New Zealand has long-standing ties with the territory of Tokelau, former colony Samoa (also known as Western Samoa), and two self-governing but “freely associated” states, the Cook Islands and Niue. New Zealand also has a large native Polynesian population of Maoris as well as large numbers of other more recently arrived Pacific Islanders. France continues to administer French Polynesia and New Caledonia. Australia, Japan, New Zealand, the United Kingdom, and the United States are the major providers of development assistance.<sup>1</sup> In the past several years, China has asserted increasing “soft power” in the region — primarily diplomatic and economic influence.<sup>2</sup> Other than Australia and New Zealand, the only

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<sup>1</sup> Most U.S. assistance to the region is not development aid but rather economic grants provided to the Freely Associated States pursuant to the Compacts of Free Association.

<sup>2</sup> See Scott Whitney, “U.S. Pays Little Attention to Asia, Less to the Pacific,” *Pacific Islands Report*, July 2, 2003. For further information, see Henry S. Albinski, “External (continued...)

regional states with defense forces are Papua New Guinea, Tonga, and Fiji. The United States is obligated by treaty agreement to defend the Freely Associated States. Several other states rely upon Australia and New Zealand for their external security.

## Key Policy Concerns

Since World War II, the United States has sought to prevent any potential adversary from gaining a strategic posture in the South Pacific that could be used to challenge the United States. In pursuit of this goal, the United States has administered territories and entered into Compacts of Free Association in the Micronesian area of the Pacific and maintained military bases on Guam and Kwajalein atoll. Since the end of the Cold War, the United States' security, political, and economic engagement in the Micronesian area has remained strong. However, compared to Australian and New Zealand policy-makers, U.S. officials have expressed less direct concern about issues affecting other areas in the region as well as the Southwest Pacific as a whole. USAID withdrew its mission in the Pacific in the mid-1990s. The U.S. government has both tacitly and openly supported Australia's growing leadership role in the region. The Bush Administration may have signaled a move toward greater or renewed involvement when it declared 2007 the "Year of the Pacific."

Some experts suggest that the United States should pay greater attention to or more directly engage the Southwest Pacific. In some Pacific Island countries, weak political and legal institutions, corruption, civil unrest, and economic scarcity could lead to "failed states" and/or become springboards for terrorism.<sup>3</sup> Australia's decision to lead a regional peacekeeping mission to the Solomon Islands in 2003 to help quell ethnic strife reportedly was part of a larger effort to prevent transnational crime and terrorism from taking root in the region. In 2004, a report by an Australian public policy institution warned that Papua New Guinea was headed for possible social and economic collapse, and that the country's weak government, border controls, and policing had allowed transnational criminal groups to enter the country. The study called for Australia and other countries to increase foreign aid to Papua New Guinea.<sup>4</sup> Some analysts argue that addressing these issues would not only help promote political stability and economic development but also enhance U.S. security interests and counter possible adverse effects of China's growing influence in the region. According to some observers, unconditional and unregulated foreign aid and business investment from China and Taiwan — provided without goals related to democracy, sustainable development, fair working conditions, and the environment — may exacerbate underlying political, economic, and social problems in the region.

<sup>2</sup> (...continued)

Power Engagement in Melanesia," in Bruce Vaughn, ed. *The Unraveling of Island Asia?: Governmental, Communal, and Regional Instability*. Westport: Praeger, 2002.

<sup>3</sup> David Barber, "It's Not So Pacific in Pacific as Leaders Gather," *German Press Agency (DPA)*, October 20, 2006.

<sup>4</sup> "Report Warns PNG Could Become Transnational Crime Base," *South China Morning Post*, December 14, 2004.

## Recent Trouble Spots

The United States has not become directly involved in domestic crises in the region, but rather has largely relied upon Australia and New Zealand, which have played roles as intermediaries and peacekeepers. Australia and New Zealand have deployed peacekeeping troops in Tonga, the Solomon Islands, and East Timor. In 2006, political and civil unrest flared in three Pacific Island countries — a military coup in Fiji and riots in Tonga and the Solomon Islands. In each case, opposition to political actions by the government combined with economic grievances and inter-ethnic tensions. In Tonga and the Solomon Islands, indigenous rioters destroyed business property owned by ethnic Chinese. Australia and New Zealand sent peacekeeping troops to Tonga and deployed additional forces in the Solomon Islands to help quell unrest. Approximately 300 military troops and police officers from Australia and New Zealand were already stationed in the Solomons as part of the 2003 peacekeeping mission. In Papua New Guinea, peacekeeping forces from Australia, New Zealand, Fiji, and Vanuatu are helping to enforce a truce, brokered in 1998, between the PNG government and an armed secessionist group on Bougainville. Many Pacific Island leaders and citizens reportedly have viewed Australia's past and present leadership role and armed presence in the region with resentment or deep ambivalence.

<b>Acronyms</b>	
<b>ANZUS</b>	Australia, New Zealand, United States Alliance
<b>FAS</b>	Freely Associated States (Marshall Islands, Micronesia, and Palau)
<b>FMF</b>	Foreign Military Financing
<b>FSM</b>	Federated States of Micronesia
<b>IMET</b>	International Military Education and Training
<b>MCA</b>	Millennium Challenge Account
<b>PIF</b>	Pacific Islands Forum
<b>PIN</b>	Pacific Island Nation
<b>PNG</b>	Papua New Guinea
<b>PRC</b>	People's Republic of China
<b>RMI</b>	Republic of the Marshall Islands

## Pacific Islands Conference of Leaders and Policy Proposals

In May 2007, the Pacific Islands Conference of Leaders (PICL), a triennial meeting of Pacific states and territories sponsored by the East-West Center,<sup>5</sup> gathered for the eighth time since the organization was founded in 1980. The conference, convening in Washington, DC, for the first time, was attended by Secretary of State Condoleezza Rice. The Bush Administration pledged to "re-engage" with the region and declared 2007 the "Year of the Pacific." Among the main topics, aims, and initiatives under discussion were: expanding public diplomacy efforts through a new public affairs office in Fiji; strengthening the Joint Commercial Commission; Pacific fisheries management; the U.S. military expansion in Guam and its impact on the region; global warming and rising sea levels; and establishing a regular U.S.-Pacific Islands dialogue. Other proposals included: enhancing educational and cultural exchanges; expanding foreign aid grants in the area of democracy-building; more fully utilizing the Generalized System of Preferences (GSP) program; and creating

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<sup>5</sup> The East-West Center is an education and research organization established by the U.S. Congress in 1960 to strengthen relations and understanding among the peoples and nations of Asia, the Pacific, and the United States.

more welcoming business environments.<sup>6</sup> The State Department also hosted a Core Partners Meeting to help coordinate foreign aid in the region.<sup>7</sup> Some analysts stated that the renewed U.S. interest in the Pacific had arisen in response to growing Chinese influence.

## The Region's Main Features

The Western Pacific or Pacific Island region (excluding Australia and New Zealand) covers 20 million square miles of ocean and 117,000 square miles of land area (a bit larger than Cuba), 80% of which is Papua New Guinea. About 8% of the land is arable. The area has a population of nearly 8 million among the 14 independent states (see **Appendix**). The total GDP of these islands (in purchasing power parity terms) is approximately \$24 billion in 2006 (about the same as Panama). With the exception of Fiji, which has a significant ethnic Indian minority, the Pacific Island nations are populated predominantly with indigenous peoples — Polynesians, Melanesians, and Micronesians. These three groups differ historically by geography, language, culture, and physical characteristics. Polynesia is located roughly in the southeastern part of the region while Melanesia lies in the southwest, closer to Australia. Micronesia straddles the north.

The Pacific Island nations (PINs) were among the last to regain independence following World War II. Countries that remain as territories include: Guam, the Mariana Islands, and American Samoa (United States), New Caledonia and French Polynesia (France), Tokelau (New Zealand), and Easter Island (Chile). The 14 sovereign states of the region are formal democracies (mostly parliamentary) with loosely organized political parties and some incorporation of traditional tribal practices. Since gaining independence, most PINs have experienced relatively little political violence. Human rights are generally respected and elections reported largely as “free and fair.” Freedom House rates eight countries as “free” and four (Fiji, Papua New Guinea, the Solomon Islands, and Tonga) as “partly free.”<sup>8</sup> Fiji’s rating has dropped since the December 2006 military coup.

Most of these countries, with the exception of Fiji, Papua New Guinea, and the Solomon Islands, have limited natural and human resources upon which to launch sustained development. Many small Pacific Island nations are hindered by weak resource and skilled labor bases, lack of economies of scale, primitive infrastructure, poor government services, and remoteness from international markets; some are threatened by rising sea levels, as well. The Asian Development Bank (ADB) groups its member Pacific Island nations into three categories:

<sup>6</sup> U.S. Department of State, “U.S. Engagement in the Pacific Islands Region: 2007 Pacific Islands Conference and Core Partners Meeting,” *Fact Sheet (Revised)*, May 8, 2007.

<sup>7</sup> Foreign aid donor countries in attendance at the Core Partners Meeting were: Australia, China, France, Germany, India, Japan, South Korea, New Zealand, and the United Kingdom.

<sup>8</sup> U.S. Department of State, *Country Reports on Human Rights Practices, 2005* (March 2006); *Freedom in the World 2007*, January 2007, [<http://www.freedomhouse.org>].

1. Countries with abundant natural resource endowments, good economic development potential, and relatively large populations (the Melanesian nations of Papua New Guinea, Vanuatu, and Solomon Islands).
2. Countries that are relatively advanced with moderately good natural resource bases and modest growth prospects (Fiji, Samoa, Micronesia, Tonga, and Cook Islands).
3. Island atoll nations with few natural resources and little development potential (Marshall Islands, Nauru, Tuvalu, and Kiribati).<sup>9</sup>

Although development potential among the Melanesian nations is good, poverty reduction and government capacity-building are pressing concerns. The ADB recommends that foreign governments and multilateral institutions help the atoll nations to establish trust funds as principal sources of government revenue.

## **U.S. Security Interests in the Pacific**

The Freely Associated States (FAS), together with Guam and the Northern Mariana Islands, have been regarded as a security border of the United States, the defense of which is considered to be key to maintaining vital sea lanes. In addition to being home to the Reagan Ballistic Missile Defense Test Site at Kwajalein Atoll in the Marshall Islands, the FAS are located strategically between Hawaii and Guam. According to some military experts, the FAS provide a vast buffer zone for Guam, which serves as the “forward military bridgehead” from which to launch U.S. operations along the Asia-Pacific security arc stretching from South Korea and Japan, through Thailand and the Philippines, to Australia. The U.S. military is building up forces on Guam to help maintain deterrence and respond to possible security threats in the Pacific.<sup>10</sup> During the Cold War, the FAS helped the United States to bolster its security posture in the Pacific, particularly in the 1980s as the status of U.S. bases in the Philippines came into doubt and as the Soviet Union took steps to increase its presence in the region. During this time, Palau was considered as a possible alternative base location to the Philippines. With the end of the Cold War, U.S. attention to the Pacific region, including foreign aid and public diplomacy, has waned. However, U.S. economic and security commitments to the FAS have been maintained through the Compact of Free Association.<sup>11</sup>

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<sup>9</sup> Palau and Niue are not members of the ADB.

<sup>10</sup> For further information, see CRS Report RS22570, *Guam: U.S. Defense Deployments*, by Shirley A. Kan and Larry A. Niksch.

<sup>11</sup> United States Congress Office of Technology Assessment, *Integrated Resource Management for U.S. Insular Areas*, U.S. Government Printing Office, June 1987; “U.S. and the Freely Associated States,” Stanley O. Roth, Assistant Secretary for East Asian and Pacific Affairs, Testimony before the House Resources Committee and the House International Relations Committee, Subcommittee on Asia and the Pacific, October 1, 1998.

## Freely Associated States

**Compact of Free Association.** The Micronesian archipelagoes of the Marshall Islands, Micronesia, Palau and the Northern Mariana Islands were districts of the U.S.-administered United Nations Trust Territory, established in 1947. In 1978, the Northern Mariana Islands voted to enter into a commonwealth arrangement with the United States. In 1986, the Marshall Islands and Micronesia entered into Compacts of Free Association with the United States and thereby became sovereign, "freely associated" states. The Compact agreements were negotiated and agreed to by the governments of the Republic of the Marshall Islands (RMI), Federated States of Micronesia (FSM), and the United States, and approved by plebiscites in the two Trust Territory districts and by the U.S. Congress in 1985 (P.L. 99-239). The economic terms of the Compact were renegotiated in 2003.

Compact grant assistance for the RMI (1987-2003) totaled approximately \$1 billion,<sup>12</sup> while such assistance to the FSM during the same period amounted to about \$1.5 billion. During this period, the two freely associated states received, on average, nearly 90% of their foreign funding or assistance from the United States.<sup>13</sup> In December 2003, President Bush signed P.L. 108-188 into law, extending grant assistance for another 20 years and establishing trust funds for the Marshall Islands and Micronesia to provide perpetual sources of revenue. U.S. grant assistance to the RMI (2004-2023) is to total \$629 million while grants to the FSM are to total \$1.4 billion pursuant to the Compact amendments.<sup>14</sup>

In 1995, Palau entered into a 50-year Compact of Free Association with the United States. Palau is to receive more than \$450 million in economic assistance between 1995 and 2009. The Compact established a trust fund which is to provide revenues to the government when grant funding expires. The value of the Palau trust fund in 2007 is approximately \$166 million.<sup>15</sup>

As part of the Compacts, the United States agreed to support the FAS economically with the goal of making them self-sufficient. The FAS are eligible for many U.S. federal programs, while FAS citizens have the right to reside and work in the United States and its territories as lawful non-immigrants or "habitual residents" and are eligible to volunteer for service in the U.S. armed forces. The RMI, FSM, and Palau joined the "coalition of the willing" in Iraq. Hundreds of FAS recruits serve in the U.S. military.

<sup>12</sup> Including compensation for U.S. nuclear testing on the Marshall Islands during the 1940s and 1950s.

<sup>13</sup> General Accounting Office, "Foreign Assistance: Lessons Learned from Donors' Experiences in the Pacific Region," August 2001.

<sup>14</sup> Inflation adjustments are to be added. U.S. contributions to trust funds for the RMI and FSM are to total \$276 million and \$517 million, respectively. For further information, see CRS Report RL31737, *The Marshall Islands and Micronesia: Amendments to the Compact of Free Association with the United States*, by Thomas Lum.

<sup>15</sup> "Palau Trust Fund Assets Doubled to \$166 Million," *Pacific Islands Report*, March 16, 2007.

**U.S.-FAS Security Relationship.** Although they are sovereign nations, the FAS remain under the U.S. security umbrella. Under the Compact, the United States is obligated to defend the FAS against attack or threat of attack. The United States may block FAS government policies that it deems inconsistent with its duty to defend the FAS, the so-called "defense veto." The United States also has the prerogative to reject the strategic use of, or military access to, the FAS by third countries, the so-called "right of strategic denial." The United States invoked this provision in 2001 when it rejected the Marshall Islands' decision to allow three Taiwan naval cadet training vessels to stop in the RMI, citing sensitivities in the U.S.-China relationship.<sup>16</sup> A similar Taiwan "Friendship Fleet" visited Palau in 2005 without U.S. objections. In addition to grant and trust fund assistance, the United States may make strategic decisions related to the FAS pursuant to the Compact of Free Association. The United States has never invoked the "defense veto" against any strategic policy decisions made by the FAS.

**Kwajalein Missile Range (Reagan Missile Test Site).** Under the Compact, the United States may establish military facilities in the FAS. The United States has a military presence only in the Marshall Islands. Through the Military Use and Operating Rights Agreement (MUORA) with the RMI, the United States operates military facilities on Kwajalein Atoll. The United States regularly conducts missile defense tests and space surveillance activities from the Kwajalein Missiles Range or the Reagan Missile Test Site. Kwajalein also serves as an intercontinental ballistic missile (ICBM) test target. Some experts consider the site to be of critical importance in the Bush Administration's missile defense program.<sup>17</sup>

**Marshall Islands Changed Circumstances Petition.** In September 2000, the Republic of the Marshall Islands government submitted to the United States Congress a *Changed Circumstances Petition* related to U.S. nuclear testing on the Marshall Islands atolls of Bikini and Enewetak during the 1940s and 1950s. The Petition requests additional compensation for personal injuries and property damages and restoration costs, medical care programs, health services infrastructure and training, and radiological monitoring. According to various estimates, between 1954 and 2004, the United States spent over \$500 million on nuclear test compensation and related assistance in the Marshall Islands, including Compact funding of \$150 million as part of a "full and final settlement" of legal claims against the U.S. government. The Petition bases its claims for compensation upon "changed circumstances" pursuant to Section 177 of the Compact. The Petition argues that "new and additional" information since the enactment of the Compact — such as a wider extent of radioactive fallout than previously known or disclosed and more recent radiation protection standards — constitute "changed circumstances" that would justify additional compensation.

<sup>16</sup> Other Taiwan ship visits to the Marshall Islands had been approved in the past.

<sup>17</sup> Under the Compact, as amended (P.L. 108-188), U.S. base rights are to continue to 2066, with the U.S. option to extend the arrangement for another 20 years (to 2086). The United States pays "use fees" to the RMI of \$15 million per year through 2013, rising to \$18 million annually from 2014 through 2023. The United States can terminate its use of the site after 2023.

In November 2004, the U.S. Department of State released a report evaluating the legal and scientific basis of the Petition. The report concluded that there was no legal basis for considering additional compensation payments. On May 25, 2005, the House Committee on Resources and the Subcommittee on Asia and the Pacific of the House Committee on International Relations held a joint hearing on the Petition. On July 19, 2005, the Senate Committee on Energy and Natural Resources held an oversight hearing on the effects of the U.S. nuclear testing program on the Marshall Islands. On April 5, 2006, the House of Representatives unanimously passed H. Res. 692, which commends the people of the Marshall Islands for the contributions and sacrifices they made to the U.S. nuclear testing program in the Marshall Islands. However, the 109<sup>th</sup> Congress made no determination on the petition. In April 2006, peoples of Bikini and Enewetak atolls filed lawsuits against the United States government in the U.S. Court of Federal Claims seeking compensation and/or damages related to the U.S. nuclear testing worth \$561 million and \$384 million, respectively.<sup>18</sup>

## Pacific Islands' Foreign Trade and Aid

**Table 1. Total Trade (Imports + Exports) between Pacific Island Countries, the World, and Selected Countries, 2005**  
(\$ millions)

	World	Australia	China	EU-25*	Japan	New Zealand	United States
Fiji	2,327	460	45	197	99	286	216
Kiribati	80	23	1	2	14	5	3
PNG	4,703	2,507	375	550	575	135	117
Samoa	199	93	6	8	24	70	24
Solomon Islands	380	52	101	22	22	10	4
Tonga	140	12	3	8	12	40	17
Vanuatu	450	48	8	66	59	18	12
Totals	8,279	3,195	539	853	805	564	393

Source: IMF, *Direction of Trade Statistics Quarterly*, September 2006

\* EU data from European Commission, March 2006

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<sup>18</sup> For further information, see CRS Report RL32811, *Republic of the Marshall Islands Changed Circumstances Petition to Congress*, by Thomas Lum, et al.

## Pacific Trade with Developed Countries

Among the larger Pacific Island nations for which information is available, Australia is the major trading partner, followed by the 25 countries of the European Union (EU-25), Japan, and New Zealand. China and the United States are the fifth and sixth largest trading partners, respectively (see **Table 1**). All PINs are beneficiaries of trade preference programs offered by major industrialized trading countries and blocs.<sup>19</sup> The EU's new accord with African, Caribbean, and Pacific (ACP) countries, the Cotonou Agreement, signed in 2000 and scheduled to go into effect in 2008, offers some additional trade preferences.<sup>20</sup> Australia and New Zealand offer preferential treatment to imports from PINs pursuant to the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA). In 2001, the sixteen members of the Pacific Islands Forum<sup>21</sup> signed the Pacific Agreement on Closer Economic Relations (PACER), which aims to facilitate the establishment of free trade agreements, first among the PINs and then between the PINs and Australia and New Zealand. In 2006, 22% of U.S. imports from Pacific Island countries (\$57 million out of total imports of \$264 million) received duty-free treatment under the U.S. GSP program.

## Foreign Aid

The Pacific Island region has among the highest rates of foreign aid per capita in the world. According to one source, foreign aid to the region totaled approximately \$886 million in 2004 (see **Table 2**). In per capita terms, there are significant variations by country, with the FAS among the highest recipients in the region and the large PINs among the lowest. On average, the Pacific Island countries receive levels of aid that are significantly higher than those of other countries in the world at similar levels of income.

The largest donors in terms of official development assistance (ODA) are Australia, the United States, and Japan. Other large providers are New Zealand and the United Kingdom. The bulk of U.S. funding in the region goes to the Freely Associated States. Australian aid is directed primarily at Melanesian and Polynesian states, while New Zealand aid flows mostly to Polynesia.<sup>22</sup> In the past decade, the EU, France, and Japan reportedly have increased their development assistance in the region, while Australia and New Zealand have added conditions on aid and the United States and the United Kingdom have cut back on their programs.<sup>23</sup>

<sup>19</sup> Also referred to as generalized system of preferences (GSP) programs.

<sup>20</sup> The Cotonou Agreement replaces the Lome Convention.

<sup>21</sup> The 14 sovereign Pacific Island countries plus Australia and New Zealand.

<sup>22</sup> Asian Development Bank, *A Pacific Strategy for the New Millennium*, September 2000.

<sup>23</sup> Whitney, op. cit.

Some sources estimate that China has become the third largest provider of foreign assistance in the region.<sup>24</sup> However, experts generally do not include aid from China in rankings of major aid donors because it differs fundamentally in purpose and character and lacks transparency. Assistance programs from major donors, such as Australia and New Zealand, reportedly aim to achieve sustainable development in Pacific Island countries through promoting effective and accountable government and broad-based, private sector growth.<sup>25</sup> By contrast, aid from China often grows out of high-level meetings with Pacific Island leaders and consists mostly, but not entirely, of loans, infrastructure and large construction projects (e.g. roads, government buildings, sports venues) in capital cities that directly benefit the governments in power rather than local communities. Furthermore, the Chinese government does not release foreign aid data (see China's Growing Influence, below).

**Table 2. Foreign Aid to the Pacific**

	Population	Major Bilateral Aid Donors	Annual Foreign Aid Inflows (2004) \$ million	Estimated Foreign Aid as % of GDP*	U.S. foreign assistance (2006) \$ million
Cook Islands	21,000	New Zealand	7.0	7.0	—
Fiji	906,000	Australia, Japan	63.0	3.0	2.5
Kiribati	105,400	UK, Japan	16.6	22.0	1.3
Marshall Islands	60,400	United States, Taiwan	50.0	35.0	31.0
Micronesia	108,000	United States	86.0	37.0	70.0
Nauru	13,287	Australia	20.0	33.0	—
Niue	2,166	New Zealand	2.6	26.0	—
Palau	20,579	United States	19.6	13.5	30.0
Papua New Guinea	5,670,544	Japan, Australia, China	400.0	9.6	0.3
Samoa	176,908	Japan, Australia	30.0	7.5	1.4
Solomon Islands	552,438	Australia, New Zealand	122.0	42.0	0.2
Tonga	114,689	Australia, New Zealand	19.0	7.7	1.7
Tuvalu	11,810	Australia, Japan	13.0	85.0	—
Vanuatu	208,869	Australia, New Zealand, Japan	38.0	11.0	2.2
Totals	7,972,090		886.8	10.6	140.6

<sup>24</sup> Nick Squires, "Pacific Persuasion," *South China Morning Post*, July 21, 2005. See also Foreign Affairs, Defense and Trade References Committee, Senate of Australia, "China's Emergence: Implications for Australia," March 2006.

<sup>25</sup> AusAID, *Pacific Regional Aid Strategy, 2004-2009*.

**Source:** CIA, *The World Factbook*, 2007

**Note:** China does not provide data on foreign aid.

\* Foreign Aid as % of GDP based upon *World Factbook* “economic aid” figures (2004) and nominal GDP data.

Total aid flows to the Pacific from Australia are estimated to be \$574 million for 2006-07.<sup>26</sup> New Zealand’s regional and bilateral aid programs are to total \$22 million in 2005-2006 and \$59 million in 2006-2007, respectively.<sup>27</sup> After reportedly cutting aid to the Pacific by 72% between 2000 and 2004, Japan has bolstered aid to counter growing Chinese influence. In 2006, Japan pledged a regional aid package of \$410 million while cultivating support for Tokyo’s bid to join the UN Security Council. Japan is to provide \$38 million in bilateral development aid to the region in 2006-2007.<sup>28</sup> The EU’s European Development Fund (EDF) supports ongoing regional and national programs worth \$235 million.<sup>29</sup> In 2006, the European Commission adopted its first formal strategy in 30 years for political and economic development and environmental protection in the Pacific. In 2007, the EU announced that it would spend \$159 million on development projects in the region’s largest country, Papua New Guinea, over a six-year period beginning in 2008. In 2006, the Asian Development Bank (ADB) approved loans, grants, and technical assistance totaling \$110 million.<sup>30</sup> The World Bank (IBRD) lends about \$50 million annually (2000).

**U.S. Assistance.** When treaty obligations to the Freely Associated States are excluded, the United States provides little development assistance to the Pacific region (see **Table 3**). Economic grant funding to the FAS as provided through the Department of the Interior, pursuant to the Compacts of Free Association, as amended, totaled \$125 million in FY2006.<sup>31</sup> The last U.S. bilateral development aid (non-military) programs in the region, costing about \$12 million annually, ended in 1996 following the closing of USAID’s regional aid mission office in Suva, Fiji. The major reasons cited for its termination were shifting strategic priorities reflecting the end of the Cold War and budget constraints. Some military assistance and Peace Corps programs continued. In 2006, the United States funded military assistance (IMET and FMF) and Peace Corps programs worth \$9.6 million to seven Pacific Island countries — Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu.

Other major U.S. foreign aid programs in the Pacific Islands region are: the Pacific Island Fund (\$100,000 in FY2006), supporting small projects developed by U.S. ambassadors in their host countries; South Pacific Fisheries (about \$18 million annually); HIV/AIDS programs in Papua New Guinea (\$1.5 million per year); and

<sup>26</sup> [<http://www.ato.gov.au/budget/2006-07/ministerial/html/ausaid-05.htm>]

<sup>27</sup> [<http://www.nzaid.govt.nz/programmes/>]

<sup>28</sup> [<http://www.mofa.go.jp/policy/oda/note/grant-6r.html>]

<sup>29</sup> [[http://www.delfji.cec.eu.int/en/achievements/pacific\\_region.htm](http://www.delfji.cec.eu.int/en/achievements/pacific_region.htm)]

<sup>30</sup> [<http://www.asiandevbank.org/Documents/reports/operations/2006/default.asp#appendix>]

<sup>31</sup> U.S. Department of the Interior, Office of Insular Affairs, FY2008 Budget Justification.

environmental programs (coral reef conservation and environmental research).<sup>32</sup> Under the Multilateral Treaty on Fisheries between the United States and certain Pacific Island countries, U.S. tuna fishing vessels gain access to fishing zones in the Southwest Pacific in exchange for the payment of licensing fees and U.S. economic assistance to the Pacific Island countries. The Southwest Pacific supplies one third of the world's tuna. Several bills to increase U.S. foreign aid to the region have been introduced in the 110<sup>th</sup> Congress.

#### Selected Pacific Legislation in the 110<sup>th</sup> Congress

- H.R. 1205:** Coral Reef Amendments Act of 2007 (Introduced in the House)
- H.R. 2150:** To Authorize Appropriations for South Pacific Exchanges (Introduced in the House)
- H.R. 2151:** To Provide Technical and Other Assistance to the Countries in the Pacific Region through the United States Agency for International Development (Introduced in the House)
- H.R. 2152:** Pacific Islands Fulbright Scholarship Fund Act of 2007 (Introduced in the House)

In March 2006, the Millennium Challenge Corporation signed a five-year \$65 million aid agreement with Vanuatu which focuses on transportation infrastructure as a means of reducing poverty. The Millennium Challenge Account (MCA), established in 2004, rewards countries that demonstrate good governance, investment in health and education, and sound free market policies. Vanuatu is one of only three countries in the East Asia-Pacific region eligible for full MCA assistance (the other two being East Timor and Mongolia).

Between 1995 and 2003, the number of U.S. Peace Corps missions in the Pacific Islands region decreased by 50%. Peace Corps operations in the Cook Islands, Fiji, Marshall Islands, and Tuvalu were terminated because of budgetary constraints, while the missions in Papua New Guinea, Solomon Islands, and Niue were closed because of concerns about safety and security. The Peace Corps closed its mission in Fiji in 1998 but reopened it in 2004. Currently, there are approximately 350 volunteers in 7 countries.<sup>33</sup>

USAID's Office of U.S. Foreign Disaster Assistance (OFDA) provided \$50,000 to address immediate needs following the April 2, 2007 tsunami that killed 21

<sup>32</sup> "U.S. Policy Toward South Pacific Island Nations, including Australia and New Zealand," Statement of Glyn Davies, Deputy Assistant Secretary of State, before the Subcommittee on Asia, the Pacific, and the Global Environment, House Committee on Foreign Affairs, March 15, 2007; Matthew P. Daley, "U.S. Policy Toward the Pacific Islands," Georgetown University, DC, February 24, 2004.

<sup>33</sup> Tamara Renee Shie, "Rising Chinese Influence in the South Pacific," *Asian Survey*, Vol. 47, No. 2 (March/April 2007).

persons and displaced 5,400 others in the Solomon Islands. USAID pledged an additional \$200,000 for emergency shelter, water, health, and sanitation provided through humanitarian organizations. Since 1995, USAID/OFDA has supported the Pacific Islands Disaster Assistance Program (disaster management training) implemented by the Asia Foundation (\$300,000 requested for FY2007).

**Table 3. U.S. Foreign Aid and Compact Grants in the Pacific Islands Region, FY2006**  
(\$ thousands)

	FMF	IMET	Peace Corps	Compact of Free Association Grants	Totals
Fiji*	494	235	1,832	—	2,561
Kiribati	0	0	1,362	—	1,362
Papua New Guinea	0	288	0	—	288
Samoa	0	0	1,368	—	1,368
Solomon Islands		149	0	—	149
Tonga	248	113	1,371	—	1,732
Vanuatu	0	98	2,122	—	2,220
<b>Sub-Totals</b>	<b>742</b>	<b>883</b>	<b>8,055</b>		<b>9,680</b>
Marshall Islands	—	—	—	45,000	45,000
Micronesia	—	—	—	96,000	96,000
Palau	—	—	—	12,700	12,700
<b>Sub-Totals (FAS)</b>				<b>153,700</b>	<b>153,700</b>
<b>Totals</b>	<b>742</b>	<b>883</b>	<b>8,055</b>	<b>153,700</b>	<b>163,380</b>

**Source:** U.S. Department of State, FY2008 Congressional Budget Justification for Foreign Operations.

\* In response to the December 2006 military coup in Fiji, the United States suspended most military and economic aid to the country pursuant to Section 508 of the Foreign Operations Appropriations Act. Fiji continues to receive some peacekeeping, humanitarian, environmental, and democracy-related assistance.

## U.S. Economic Programs

The Joint Commercial Commission (JCC) was proposed by President George H.W. Bush in 1990. On January 12, 1993, a Memorandum of Understanding establishing the United States/Pacific Island Nations Joint Commercial Commission was signed by the United States and the then-13 independent Pacific Island nations.

The objective of the JCC is to promote mutually beneficial commercial and economic relations between the United States and the Pacific island countries. The JCC, which has a rotating chairmanship, has been criticized for lacking a permanent bureaucracy and forceful agenda. In October 2006, the Pacific Islands Forum Secretariat's Deputy Secretary General, Peter Forau, stated that the PINs wanted to reinvigorate JCC efforts with the United States, which have languished in the past few years.<sup>34</sup>

## **China's Growing Influence**

The People's Republic of China (PRC) has become a growing force in the Southwest Pacific as a result, some argue, of a political vacuum created by U.S. neglect. In order to garner political and economic influence in relation to Taiwan, the United States, and U.S. allies as well as to access raw materials, China has expanded its diplomatic and commercial presence in the region. By some accounts, the PRC has become the third-largest source of foreign aid to the South Pacific, which it largely provides without the kinds of conditions or performance criteria — some say heavy-handedness — that have engendered resentment among some Pacific Island countries toward their major benefactor, Australia. Although China's influence is largely limited to diplomatic and economic "soft power," some analysts worry about the PRC's long-term intentions.

## **The China-Taiwan Rivalry and "Dollar Diplomacy"**

The PRC and Taiwan are diplomatically and economically active in the Southwest Pacific. While the United States does not maintain an embassy in several Pacific Islands countries with which it has diplomatic relations, the PRC has opened diplomatic missions in all Pacific countries with which it has diplomatic relations and has provided bilateral assistance, embarked on high profile regional visits, and hosted lavish receptions in Beijing for Pacific Island leaders.<sup>35</sup> Of the 24 countries with which Taiwan (or ROC) has diplomatic ties, six are in the Pacific, of which two are Freely Associated States.<sup>36</sup> China and Taiwan have become major sources of trade, investment, immigration, and tourism in the region.

The PRC and Taiwan both have begun to develop more coordinated diplomatic and economic strategies in the Pacific. In April 2006, PRC Premier Wen Jiabao held a summit in Fiji (China-Pacific Island Countries Economic Development and Cooperation Forum) with members of the principal regional organization, the Pacific Islands Forum (PIF). At the meeting, China and several PIF countries signed the

<sup>34</sup> "Pacific Island Nations Keen to Renew JCC Relations with US," *Asia Pulse*, October 24, 2006.

<sup>35</sup> Reportedly there are more Chinese diplomats in the region than from any other nation. Squires, op. cit.

<sup>36</sup> Taiwan (ROC) has diplomatic relations with the following Pacific Island nations: Kiribati, the Marshall Islands, Nauru, Palau, the Solomon Islands, and Tuvalu. China has diplomatic relations with Cook Islands, Fiji, Micronesia, Papua New Guinea, Samoa, Tonga, and Vanuatu.

China-Pacific Island Countries Economic Development and Cooperation Guiding Framework. Wen reportedly pledged \$375 million in development assistance and low interest loans as well as the establishment of preferential tariffs for Pacific Island goods. The PRC also has expressed interest in a free trade agreement with the PINs.

In September 2006, Taiwan President Chen Shui-bian held the country's first summit with its Pacific allies, held in Palau, and signed agreements on cooperative projects including law enforcement, online government, tourism, public health, the environment, energy, agriculture and fisheries. Taiwan and the six summit participants signed a "Palau Declaration," recognizing Taiwan's achievements in political democratization and economic development and supporting Taiwan's bid to join the United Nations, World Health Organization, and other major international organizations.<sup>37</sup>

In return for aid, Beijing and Taipei demand diplomatic recognition and support of diplomatic objectives. China insists that its diplomatic relations in the Pacific support the "one-China" policy, cut off contacts with Taiwan, and oppose resolutions in the United Nations (U.N.) that would criticize China's human rights record. Taiwan's Pacific friends support U.N. resolutions that would endorse its membership in international organizations.

Some experts argue that "dollar diplomacy" — large amounts of unconditional aid in exchange for support on international issues — may exacerbate political instability and corruption in recipient countries while not leading to broad economic development. According to many observers, financial and other benefits from Beijing and Taipei may overly influence the behavior of Pacific Island leaders who preside over limited budgets or negate the incentives offered or sanctions imposed by other major aid donors such as Australia. In the face of military and economic sanctions by Western countries, for example, the new leadership in Fiji reportedly has sought to strengthen the country's relationships with China, India, Japan, South Korea, and Southeast Asia.<sup>38</sup> Some have accused the PRC and Taiwan of meddling in the domestic politics of several Pacific Islands countries, including Fiji, Kiribati, Nauru, the Solomon Islands, and Vanuatu. Both Beijing and Taipei have denied using aid primarily to advance diplomatic or strategic agendas and have stressed the mutual benefits of their Pacific Island relationships.

Many Pacific Island nations have welcomed the attention, aid, and economic support from the PRC and Taiwan. Several of these countries, such as Kiribati and Nauru, have switched diplomatic alliances more than once reportedly in response to

<sup>37</sup> Lawrence Cheng, "Chen Denies Chequebook Diplomacy," *South China Morning Post*, September 5, 2006; "Taiwan Allies Issue Palau Declaration," *PACNEWS*, September 6, 2006; Lilian Wu, "Too Early to Discuss Cost of Projects with Allies: MOFA," *Central News Agency English News*, September 5, 2006.

<sup>38</sup> "Bainimarama to Seek Trade, Military Ties with Asia," *Pacific Islands Report Briefs*, January 30, 2007; U.S. Department of State, Bureau of East Asian and Pacific Affairs, *Background Note: Fiji* (September 2006).

enticements of assistance by China and Taiwan.<sup>39</sup> Some Pacific Island leaders argue that foreign assistance is not a “zero-sum game” and that increased aid, trade, and investment from the PRC and Taiwan neither exclude the influence of Australia and New Zealand nor preclude U.S. re-engagement in the region.<sup>40</sup>

There reportedly are more than 3,000 Chinese state-owned and private enterprises (including energy production, garment factories, fishing and logging operations, plantations, hotels, restaurants, and grocery stores) in the Pacific, with a total value estimated at between \$600 million and \$1 billion.<sup>41</sup> The governments of the largest Pacific Island countries — Papua New Guinea, Fiji, and the Solomon Islands — have welcomed investment from China or Taiwan as part of their “look north” foreign policies. Papua New Guinea and the Solomon Islands, whose exports of wood to China grew by 26% and 29% respectively in 2006, run large trade surpluses with the PRC. PRC investments in PNG include the \$1 billion Ramu nickel mine, logging, gas production, and tuna processing. Chinese demand for timber reportedly has fueled large-scale illegal logging in Indonesia and Papua New Guinea.<sup>42</sup> China operates a large tuna fishing fleet in Fijian waters and has agreed to help develop a hydro power plant in the country.

**China, Taiwan, and the Freely Associated States.** The FAS remain under strong U.S. economic and strategic influence, despite growing economic assistance and investment from China and Taiwan. There appears to be little, if any, political pressure in the FAS to alter the economic and strategic underpinnings of their relationships with the United States. As in other Pacific Islands countries, some citizens in the Freely Associated States have expressed concerns about the possible adverse effects of PRC and Taiwanese influence.

Despite the strength of the U.S.-FAS relationships, the former Trust Territory districts also have good relations with Japan, China, and Taiwan based largely upon foreign assistance and commerce. The Compact does not restrict the countries with which the sovereign Freely Associated States may have diplomatic relations. Micronesia established diplomatic relations with China in 1989, while the Marshall Islands and Palau recognize Taiwan, for largely economic rather than ideological reasons. China is likely one of the largest providers of foreign assistance to the RMI, after the United States and Japan, although amounts are difficult to determine.<sup>43</sup> PRC assistance to Micronesia has included loans, grants, and the construction of government buildings and a sports center. China also maintains a large tuna fishing

<sup>39</sup> Robert Keith-Reid and Samisoni Pareti, “China Stirs the Pot of Divided Pacific Loyalties,” *Pacific Islands Report*, March 16, 2006.

<sup>40</sup> “Chinese Aid Won’t Mean Chinese Influence: Sevele,” *Tonga Now*, May 22, 2007.

<sup>41</sup> Kalinga Seneviratne, “South Pacific: China Seen As Alternative to Big-Brother Aussies,” *Inter Press Service*, April 17, 2006; Alphonse Muapi, “Investment Grows,” *Business News*, April 6, 2006.

<sup>42</sup> “China’s Demand for Timber is Destroying Forests in Indonesia, PNG, Says Greenpeace,” *Associated Press*, April 17, 2007.

<sup>43</sup> U.S. Government Accountability Office, “Compacts of Free Association: Development Prospects Remain Limited for Micronesia and the Marshall Islands,” June 2006.

fleet in the country. Micronesia, along with six other countries in the region with which China has diplomatic relations, is an approved tourist destination for Chinese citizens.

The Marshall Islands switched recognition from the PRC to Taiwan in 1998. According to the U.S. Government Accountability Office, Taiwan is the second largest source of foreign aid to the Marshall Islands (about \$10 million annually) after the United States (Japan is the third largest provider of assistance).<sup>44</sup> Taiwan has pledged \$40 million over 20 years for the Marshall Islands Trust Fund, which was established by the United States and the Marshall Islands as part of the amendments to the Compact of Free Association in 2004. A major portion — over 50% — of the large businesses reportedly are owned by Taiwanese, many of whom are naturalized citizens of the RMI, which has caused some concern among the native business community.<sup>45</sup>

Taiwan, which has had diplomatic relations with Palau since 1999, reportedly “casts a huge shadow” over the country’s economy, with estimates of \$100 million in cumulative aid and loans, causing some resentment among locals. Japan is also a major aid donor. In addition, Taiwan and Japan are Palau’s top source of tourists: Taiwan supplied 34,000 tourists or 42% of total foreign visitors to Palau, a nation of 20,000, in 2005.

## **China’s Aims in the Pacific**

Some specialists argue that China’s main objectives in the Southwest Pacific are to check and reverse Taiwan’s diplomatic inroads and to garner influence but not replace the United States as the regional hegemonic power. Others argue that China has devised a comprehensive strategy to take advantage of waning U.S. interest in the region since the end of the Cold War, especially in Melanesia. Some add that China has attempted to enhance its penetration of the region through emigration.

The ethnic Chinese population in the Pacific Island region is economically influential but remains relatively small numerically. Estimates of the ethnic Chinese population in the Pacific (including French Polynesia and the U.S. territories), range from 80,000 to over 200,000, or between 1% and 3% of the total population. These estimates are based upon data that generally do not break down ethnic Chinese populations by place of origin.<sup>46</sup> There reportedly has been an influx of Chinese in the two largest Pacific Island nations, Papua New Guinea and Fiji (with an estimated 20,000 Chinese in each country) along with reports of illegal immigration and ethnic Chinese involvement in organized criminal activity, including illegal drugs, gambling, prostitution, and money laundering. However, according to other experts, the PRC government has no systematic policy to populate the islands and “no real

<sup>44</sup> Ibid.

<sup>45</sup> “Sale of Biggest Marshalls Business Shows Increasing Taiwan Dominance,” *PACNEWS*, October 18, 2005.

<sup>46</sup> Penny Spiller, “Riots Highlight Chinese Tensions,” *BBC News*, April 21, 2006 and “The Pacific Proxy: China vs. Taiwan,” *PACNEWS*, February 9, 2007.

need” to bolster its influence through such a policy. Rather, Chinese immigrants in Pacific Island communities often complicate PRC relations in the region by creating resentment among indigenous citizens toward Asians in general or Chinese in particular. Furthermore, some argue, Chinese populations in the Pacific are not monolithic — they include ethnic Chinese from China, Hong Kong, Taiwan, and elsewhere in Southeast Asia as well as Pacific Islanders of Chinese descent who have resided and intermarried in the Pacific region since the 19<sup>th</sup> century.

**Anti-Chinese Riots.** PRC and Taiwanese engagement in the region, coupled with the ethnic-Chinese economic presence, while often welcomed by PIN governments, has engendered some resentment among indigenous peoples. In some cases, public anger against the national government has spilled over into anti-ethnic-Chinese activity. In November 2006, riots broke out in Tonga’s capital, Nuku’alofa, in which at least eight people died and three-quarters of the commercial district were destroyed, including 30 Chinese-owned businesses. More than 70% of Nuku’alofa’s grocery stores are owned by newly-arrived migrants from China, according to one report.<sup>47</sup> The riots were sparked by anger over the perceived slow pace of political reforms following the death in September 2006 of King Taufa’ahau Tupou IV, and reflected frustration over political and economic privileges enjoyed by the hereditary nobility, unemployment and the reduction of civil service jobs, and the growth of ethnic Chinese-owned businesses.<sup>48</sup> Estimates of the ethnic Chinese population in Tonga, many of whom are Tongan citizens, range from 1,000 to 4,000 persons. Australia and New Zealand sent 85 and 70 troops and police, respectively, to help restore order and enforce martial law. Although stability was restored, Tongan opposition groups criticized the foreign troops as backing an undemocratic government.<sup>49</sup> Approximately 200-300 Chinese nationals returned to China on an airplane chartered by the PRC government.

In April 2006, an estimated 1,000 political demonstrators, rioters, and looters clashed with police and set buildings on fire in the business district of Honiara, the capital of the Solomon Islands, where there is a concentration of ethnic Chinese-owned businesses. Among the demonstrators’ charges was that both the former and newly-appointed governments were corrupt and unduly influenced by local Chinese business interests and Taiwan government money or “assistance.” The ethnic Chinese community in the country is estimated to total a few thousand, with about 2,000 in Honiara. Most ethnic Chinese in the Solomon Islands reportedly are from Hong Kong, Singapore, Indonesia, and Malaysia or are naturalized third or fourth generation Solomon Islanders, with no links to Taiwan. Taiwan, which has diplomatic relations with the Solomon Islands, reportedly provides \$11 million in

<sup>47</sup> Bertil Lintner, “China’s Third Wave: The Sinicizing of the Pacific,” *Asia Times Online*, [<http://www.atimes.com>], April 18, 2007.

<sup>48</sup> “Not So Friendly — Tonga,” *The Economist*, November 25, 2006.

<sup>49</sup> Pesi Fonua, “Tonga Gets Outside Help after Riots,” *Associated Press*, November 19, 2006; Dan Eaton, “Stop Backing Regime, Troops Told,” *The Press (New Zealand)*, November 22, 2006; Peter Lewis, “Australian Troops Go ‘Softly Softly’,” *Australian Broadcasting Corporation*, November 23, 2006.

annual assistance to the SI and has been accused of exacerbating corruption there.<sup>50</sup> Taiwanese officials denied that they had “bought” any influence in the election of Snyder Rini to be Prime Minister in 2006. The PRC evacuated 300 Chinese nationals during the upheaval. Australia and New Zealand, which together had approximately 300 military troops and police officers already stationed in the country, a legacy of the 2003 peace-keeping mission established to help quell ethnic violence, sent additional personnel.<sup>51</sup>

## Other Regional Actors

The Southwest Pacific is in Australia’s and New Zealand’s immediate neighborhood and is of vital importance to these two nations. Many American strategic and regional analysts and practitioners familiar with Australia’s and New Zealand’s relationship with the South Pacific have generally been comfortable relying on Australia and New Zealand to take the lead in promoting peace, stability, development, and other Western interests in the region. The two Oceanic nations have provided development aid, helped to mediate regional conflict, sent peacekeeping forces to trouble spots, and responded quickly to natural disasters. They share many U.S. strategic concerns while taking care to cultivate good relationships with China. Deputy Assistant Secretary of State Glyn Davies stated, “The bedrock of our relations in the region remains, of course, our treaty alliance with Australia. We simply have no more steadfast partner in the region and in the world today.”<sup>52</sup>

## Australia

**Regional Role.** Australia has a long standing concern over what many have viewed as an arc of instability which spans the region to the north of Australia, from the Southwest Pacific through archipelagic Southeast Asia.<sup>53</sup> While there has been some improvement, such as in Aceh in Indonesia, continuing instability and the potential for failed states continues in places such as East Timor, West Papua, Bougainville in Papua New Guinea, and the Solomon Islands.

Australia has supported Pacific Island countries’ sustainable development through both bilateral and regional programs. Australian defense cooperation has sought to complement this assistance by contributing to Pacific Island countries’ “efficient and sustainable use of maritime resources and enhancing regional

<sup>50</sup> Ashley Wickham, “Taiwan Payments Cloud Solomons Democracy,” *Pacific Islands Report*, May 19, 2006; Alfred Sasako, “Taiwan Fund Secrecy Dangerous for Solomons,” *Pacific Islands Report*, March 30, 2006.

<sup>51</sup> The Regional Assistance Mission to the Solomon Islands (RAMSI).

<sup>52</sup> “U.S. Policy Toward South Pacific Island Nations, including Australia and New Zealand,” op. Cit.

<sup>53</sup> For further information, see Bruce Vaughn, ed. *The Unraveling of Island Asia?: Governmental, Communal, and Regional Instability*. Westport: Praeger, 2002.

security.”<sup>54</sup> Australia has worked closely with Papua New Guinea to develop law and order, border security, and economic management capacity.

Since 2001, Canberra has played a more assertive role in the region out of a desire to prevent further destabilization that could foster international crime or terrorist activity. Australian Prime Minister John Howard has stated: “It is in Australia’s interests and in the interests of our Pacific Island neighbors to strive for a region that is economically viable, politically stable and free from crime. The financial costs and potential threats to Australia from failing states, including transnational crime and international terrorism, would be immense.”<sup>55</sup> Australia has provided patrol boats and other support to Pacific Island nations to assist them in monitoring their maritime resources. In 2006, Canberra sent troops and police officers to East Timor, the Solomon Islands, and Tonga to promote stability. Its presence in East Timor and the Solomons appears to be evolving into longstanding commitments.<sup>56</sup> Australia has also played an increasingly active role in support of the Pacific Islands Forum, while an Australian, Greg Urwin, serves as Secretary General of the Pacific Islands Forum.

**Australia-U.S. Relationship.** Australia arguably is America’s closest ally in the Asia-Pacific region, and under the leadership of Prime Minister John Howard has been a staunch supporter of the Bush Administration’s war against terror. Since the fall of Singapore during World War II, Australia increasingly has looked to the United States as its key alliance partner. This alliance relationship was codified in the Australia, New Zealand, United States (ANZUS) Alliance of 1951. Australians fought alongside Americans in WWI, WWII, Korea, and Vietnam. The Australian government invoked the ANZUS alliance after the terrorist attacks of 9/11 in the United States and sent troops to fight in Afghanistan and Iraq. New Zealand’s anti-nuclear policies in the 1980s led the United States to suspend its ANZUS defense obligations to New Zealand, although Australia and New Zealand maintain close military ties. The ANZUS alliance has continued to function along bilateral lines between the United States and Australia. The Australia-United States Ministerial (AUSMIN) meeting has been a key institutional aspect of the relationship.<sup>57</sup> The Australia-U.S. Free Trade Agreement (AUSFTA) came into force in January 2005. It liberalized an already productive bilateral trade and investment relationship and established working groups to explore further trade reform.<sup>58</sup>

<sup>54</sup> Australian Government, Department of Foreign Affairs and Trade, “South Pacific,” [<http://www.dfat.gov.au>].

<sup>55</sup> “Australia’s Regional Engagement in the South Pacific,” *Pacific Magazine*, March 2004, [[http:// www.dfat.gov.au](http://www.dfat.gov.au)].

<sup>56</sup> “Australia Struggles to Promote Order in Troubled Region,” *US Fed News*, January 4, 2007.

<sup>57</sup> For further information, see CRS Report RL33010, *Australia: Background and U.S. Relations*, by Bruce Vaughn, and CRS Report RL32876, *New Zealand: Background and Bilateral Relations with the United States*, by Bruce Vaughn.

<sup>58</sup> U.S. State Department, “Background Notes: Australia,” *US Fed News*, February 1, 2007.

**Australia and China.** Australian attitudes towards China have moderated somewhat in recent years as a result of a rapid expansion in trade between the two countries. This growing trade has evolved to a point where China is Australia's second largest trading partner behind the United States. Australian exports to China grew by 39% in 2005-2006 to over \$14 billion. Australia and China also concluded the 8<sup>th</sup> round of Free Trade Agreement negotiations in March 2007.<sup>59</sup> While the United States remains Australia's key strategic partner, China has become a key economic partner. Some analysts point to a potential tension in this dynamic should relations between the United States and China deteriorate. As a result, Australia does not wish to see rising tension between the U.S. and China nor is it likely to support a policy of containment of China. That said, Australia would likely be uneasy with a significant expansion of Chinese influence, particularly diplomatic or defense related, in the South Pacific, a region that it regards as within its area of immediate strategic interest.

## New Zealand

**Regional Role.** Deputy Assistant Secretary of State Glyn Davies described New Zealand as a “key partner” in the Pacific, stating in a March 2007 speech that “we are seeking greater cooperation with New Zealand in a number of areas in which it can offer significant contributions, including non-proliferation, counter terrorism, humanitarian and disaster relief and peacekeeping.”<sup>60</sup> Though a small country of approximately 4 million, New Zealand is a key actor in the South Pacific. New Zealand has particularly close ties with Tokelau, Niue, the Cook Islands, Samoa, and Tonga. Tokelau, administered by New Zealand since 1926, has moved towards greater political autonomy.<sup>61</sup> New Zealand’s Polynesian Maori community (15% of the total population), as well as its Pacific Islander community (6.5%), have helped to define New Zealand as a Pacific nation. For this reason, and because of its reputation as an honest broker, it is viewed as a natural regional partner by many in the Pacific.<sup>62</sup> New Zealand’s key policy issues in the Pacific include diplomatic ties, trade relations, security promotion, disaster assistance, and shared environmental concerns.

New Zealand imposed sanctions against Fiji in the wake of the December 5, 2006 coup in an effort to foster the return of democracy. Defense ties, sporting links, and intergovernmental development assistance have been curtailed, although restrictions were not imposed upon trade, investment, or tourism. New Zealand has

<sup>59</sup> “The Australia-China FTA Negotiations in Brief,” Department of Foreign Affairs and Trade, [<http://www.dfat.gov.au>].

<sup>60</sup> “U.S. Policy Toward South Pacific Island Nations, including Australia and New Zealand,” op. cit.

<sup>61</sup> New Zealand Ministry of Foreign Affairs, “New Zealand and the Tokelau Islands,” [<http://www.mfat.govt.nz>].

<sup>62</sup> New Zealanders of Pacific identity grew by 14.7% from 1996 to 2006. Hon Phil Goff, “New Zealand in the Pacific” [<http://www.beehive.govt.nz>].

expressed concern that the situation in Fiji could have a negative impact on regional stability.<sup>63</sup>

New Zealand exports to the Pacific total over \$700 million annually. New Zealand provides largely unrestricted access for imports from Pacific countries under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA). Other arrangements, such as the Pacific Agreement on Closer Economic Relations (PACER) and the Pacific Island Countries Trade Agreement (PICTA) also promote regional trade.<sup>64</sup>

New Zealand has worked to promote stability in Bougainville (PNG), East Timor, the Solomon Islands, Fiji, and Tonga. The Biketawa Declaration of 2000 provides a regional security framework for collective action in times of crisis. There is a regional view that “ethnic tensions, inequalities of wealth, lack of good governance, land disputes and erosion of cultural values” are the key underlying causes of conflict in the region.<sup>65</sup> New Zealand provides disaster assistance to Pacific Island states with Australia and France through the FRANZ arrangement reached in 1992 to coordinate disaster assistance efforts between the three states.

New Zealand helps safeguard and manage the Southwest Pacific’s fisheries and has taken a leading role on climate change and environmental concerns in the region. New Zealand has agreed to accept Tuvalu’s entire population should rising sea levels inundate the island, which lies within five meters above water. The government of Tuvalu expects this will happen in the next 50 years.<sup>66</sup> New Zealand opposes the shipment of nuclear material through the region and has sought to reduce whaling through the establishment of a South Pacific Whale Sanctuary and the Convention on Migratory Species. The United States and New Zealand have worked together to address climate change issues through the U.S.-New Zealand Bilateral Climate Change Partnership, established in 2002.<sup>67</sup>

**New Zealand and China.** China is New Zealand’s fourth largest export market with close to \$1.3 billion in trade. This trade accounts for 5.6% of New Zealand exports. New Zealand and China initiated Free Trade Agreement negotiations in 2004. The trade relationship has developed alongside an increasing number of high level exchanges between leaders of the two nations. PRC Premier Wen Jiabao held discussions with New Zealand Foreign Minister Winston Peters in

<sup>63</sup> New Zealand Ministry of Foreign Affairs, “Pacific,” [<http://www.mfat.govt.nz>].

<sup>64</sup> New Zealand Ministry of Foreign Affairs, “Key Pacific Issues — Trade,” [<http://www.mfat.govt.nz>].

<sup>65</sup> New Zealand Ministry of Foreign Affairs, “Key Pacific Issues — Security,” [<http://www.mfat.govt.nz>].

<sup>66</sup> “Paradise Slowly Sinking,” *Sunday Times*, February 18, 2007.

<sup>67</sup> New Zealand Ministry of Foreign Affairs, “Joint Statement by New Zealand and the United States Following the Fourth Meeting Under the U.S./New Zealand Bilateral Climate Change Partnership,” August 30, 2006, [<http://www.mfat.govt.nz>].

Beijing in May 2007 during which the two leaders pledged to engage the Pacific in a cooperative manner.”<sup>68</sup>

## **France**

The legacy of the period of French colonization in the Pacific can be seen today in the French administration of French Polynesia and New Caledonia. French Polynesia consists of some 118 islands grouped into five archipelagos with a population of over 270,000. French and Tahitian are the official languages. The capital of this Overseas Territory of France is Papeete on Tahiti. French Polynesia has an approximate per capita GNP of \$17,500. The territory’s Statute of Autonomy of 1984 led to enhanced self government which was extended in 2004 with a new autonomy statute. The president is elected by the Assembly of French Polynesia. There are centrist, pro-autonomy, and pro-independence political parties. France ended nuclear testing in French Polynesia in 1996 which had made it unpopular in the region.<sup>69</sup>

New Caledonia’s population of some 230,000 is largely comprised of native Melanesians (known as Kanaks) and descendants of French settlers and convicts. France annexed the islands in 1853 and established a penal colony there, which closed in 1896. There were two major Kanak uprisings against the encroachment of French settlers on Kanak lands in 1878 and 1917. New Caledonia has great mineral wealth with deposits of nickel, cobalt, chrome, and gold. New Caledonia is the world’s third largest producer of nickel with an estimated one quarter of world nickel reserves.

Pro-independence sentiment coalesced again in the 1970s in response to global decolonization and by 1984, a Kanak National Socialist Liberation Front (FLNKS) was established. Violence between Kanaks and French settlers, which flared between 1984 and 1988, was addressed by the 1988 Matignon Accords. The agreements allowed greater autonomy for New Caledonia as well as recognized the need to address the disparities between the French and Kanak communities. The Noumea Accord of 1998 committed France to transfer additional responsibilities to New Caledonia’s government but retained for France responsibility for defense, justice, public order, and some external affairs. A future vote to be held between 2014 and 2018 will determine if New Caledonia will become a fully independent nation or remain associated with France.<sup>70</sup>

France’s position in the South Pacific has improved greatly as the result of its moves to allow the process of decolonization to proceed and to stop nuclear testing in the region. France’s relations with New Zealand and other nations of the South Pacific reached a low point when French agents sank the Green Peace ship *Rainbow Warrior* in Auckland Harbour in 1985. The ship had been making preparations for a protest voyage to Mururoa Atoll in French Polynesia where France conducted

<sup>68</sup> “Peters Meets Chinese Premier,” May 25, 2007, [<http://www.beehive.govt.nz>].

<sup>69</sup> New Zealand Ministry of Foreign Affairs, “French Polynesia” [<http://www.mfat.govt.nz>].

<sup>70</sup> New Zealand Ministry of Foreign Affairs, “New Caledonia” [<http://www.mfat.govt.nz>].

nuclear tests.<sup>71</sup> France's more recent intent to have better relations with New Zealand, Australia, and other South Pacific states was demonstrated by the positive atmosphere surrounding the second France-Oceania summit held in Paris in July 2006.<sup>72</sup>

## Pacific Island Multilateral Groups

**Pacific Community.** The Pacific Community, originally known as the South Pacific Commission, was established in 1948 by the governments of Australia, France, the Netherlands, New Zealand, the United Kingdom, and the United States. The Secretariat of the Pacific Community (SPC) provides technical assistance and advisory service on behalf of the 26 members of the Pacific Community.<sup>73</sup> The SPC has three administrative divisions which handle land, marine, and social resources and provide information and expertise to member states.

**Pacific Islands Forum.** The Pacific Islands Forum, known as the South Pacific Forum until 2000, has a more limited membership than the Pacific Community but a higher international political profile. The South Pacific Forum was established by the independent and self governing states of the region in 1971. The group reaches decisions by consensus and since 1989 has held dialogue sessions after its forum meetings. The Pacific Islands Forum was critical of France's nuclear testing in the mid-1990s and supported the South Pacific Nuclear Free Zone Treaty (SPNFZ), which is also known as the Treaty of Rarotonga. The treaty prohibits nuclear weapons and nuclear tests in the South Pacific. The activities of the Forum are handled by the Pacific Islands Forum Secretariat. The 37<sup>th</sup> Forum Communique of 2006 highlighted such issues as regional fisheries, deep sea bottom trawling, climate variability and sea level rise, sustainable development, and the Regional Assistance Mission to the Solomon Islands.<sup>74</sup> In recent years the forum has increasingly focused on regional trade, good governance, and security.<sup>75</sup>

<sup>71</sup> "The Bombing of the Warrior," [<http://archive.greenpeace.org/> ].

<sup>72</sup> "France-Oceania Summit: A Thawing of Relations," *Scoop Independent News*, July 4, 2007.

<sup>73</sup> "Secretariat of the Pacific Community at a Glance," *Scoop Independent News*, February 8, 2007.

<sup>74</sup> Pacific Islands Forum Secretariat, Forum Communique, Thirty-seventh Pacific Islands Forum, Nadi, Fiji, October 24-25, 2006.

<sup>75</sup> Australian Department of Foreign Affairs and Trade, "Pacific Islands Forum," [<http://www.dfat.gov.au> viewed].

## Appendix: Pacific Island Countries at a Glance

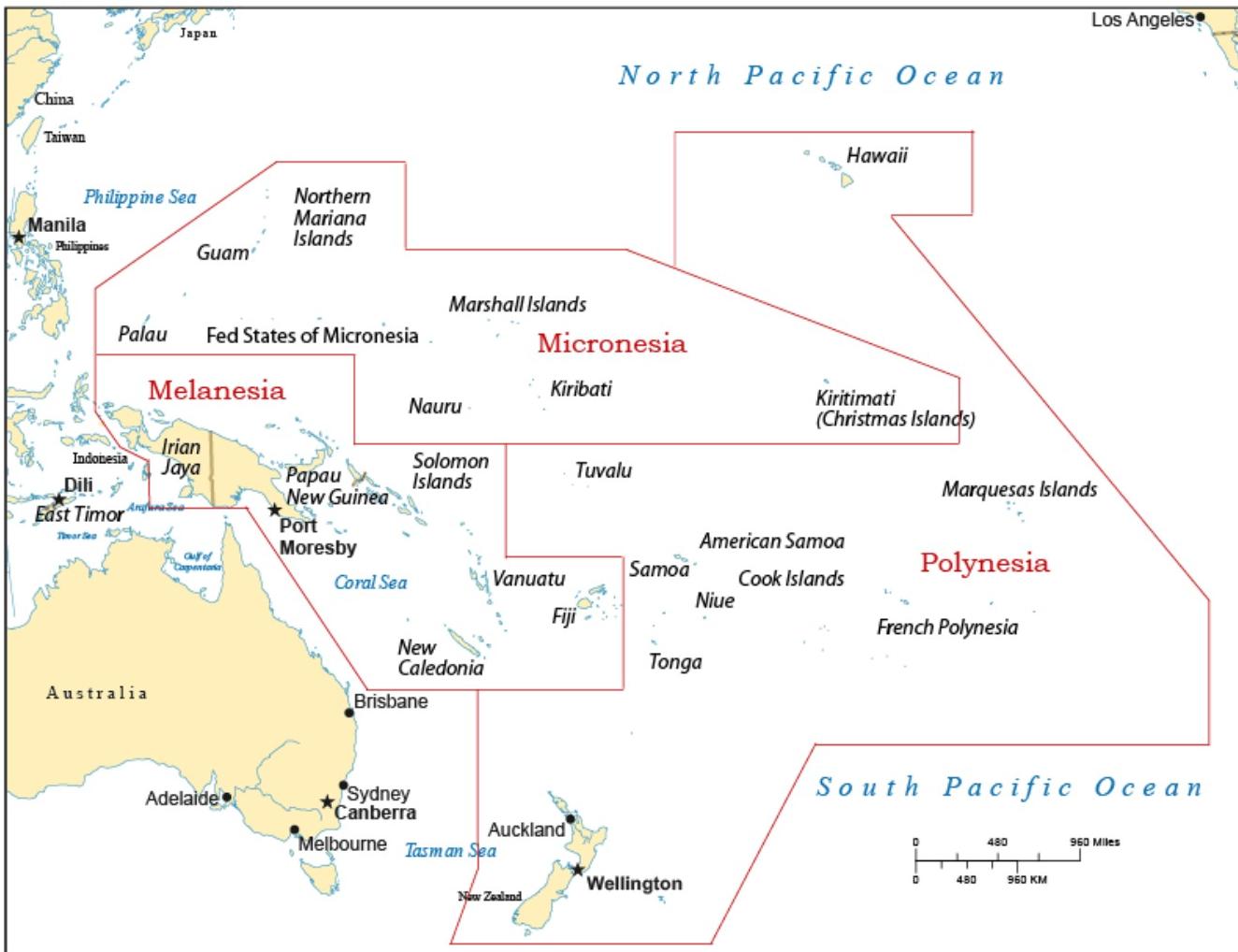
Region, Country and Date of Independence	Former Colonial Ruler or Administrator	Land Area (sq. kilo)	Population	GDP per capita (PPP)	HDI	Major Exports to the U.S.
<b>MELANESIA</b>						
Papua New Guinea 1975	Australia	452,860	5,670,544	\$2,700	139	coffee, cocoa beans, fish, sugar
Fiji 1970	United Kingdom	18,270	906,000	\$6,100	90	fish, beverages, garments
Solomon Islands 1978	United Kingdom	27,540	552,438	\$2,418	128	natural jewelry, electronics, fish, wood
Vanuatu 1980	United Kingdom, France	12,200	208,869	\$2,900	119	fish, plants, spices
<b>POLYNESIA</b>						
Samoa 1962	New Zealand	2,934	176,908	\$2,100	75	juice, fish, fruit
Tonga 1970	United Kingdom	718	114,689	\$2,200	55	fish, natural jewelry, vegetable products
Cook Islands 1965 <sup>a</sup>	New Zealand	236	21,000	\$9,000	N/A	fish, cut flowers, other
Tuvalu 1978	United Kingdom	26	11,810	\$1,600	N/A	bicycles, machinery, telecom and sound equipment
Niue 1974 <sup>a</sup>	New Zealand	260	2,166	\$5,800	N/A	fabrics, garments, toys, integrated circuits

<b>Region, Country and Date of Independence</b>	<b>Former Colonial Ruler or Administrator</b>	<b>Land Area (sq. kilo)</b>	<b>Population</b>	<b>GDP per capita (PPP)</b>	<b>HDI</b>	<b>Major Exports to the U.S.</b>
<b>MICRONESIA</b>						
Micronesia 1986 <sup>b</sup>	United States	702	108,000	\$2,300	N/A	garments, fish, pearls
Kiribati 1971	United Kingdom	811	105,400	\$2,700	N/A	fish, crustaceans
Marshall Islands 1986 <sup>b</sup>	United States	181	60,400	\$2,900	N/A	fish, coconut oil
Palau 1993 <sup>b</sup>	United States	458	20,579	\$7,600	N/A	fish, decorative wood items, other
Nauru 1968	Australia, New Zealand, United Kingdom	21	13,287	\$5,000	N/A	navigational instruments
Totals		517,196	7,972,090			

**Sources:** CIA, The World Factbook, 2007; United Nations Human Development Program; United States International Trade Commission

**Notes:** The UN Human Development Index (HDI) measures life expectancy, education, literacy, and gross domestic product (GDP) per capita; Per capita incomes are measured in terms of buying power or Purchasing Power Parity (PPP).

- a. Independent state in free association with New Zealand
- b. Independent state in free association with the United States

**Figure 1. Map of the Southwest Pacific: Pacific Island Countries and Cultural Areas**

Source: Map Resources. Adapted by CRS. 06/07